

Message Text

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ACTION EA-10

INFO OCT-01 EUR-12 ISO-00 CIAE-00 DODE-00 PM-03 H-02

INR-07 L-03 NSAE-00 NSC-05 PA-02 PRS-01 SP-02 SS-15

USIA-15 AID-05 COME-00 EB-07 FRB-01 TRSE-00 XMB-04

OPIC-06 CIEP-02 LAB-04 SIL-01 OMB-01 STR-04 CEA-01

ABF-01 FSE-00 /115 W

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R 110710Z JUN 75

FM AMEMBASSY CANBERRA

TO SECSTATE WASHDC 5946

INFO AMCONSUL BRISBANE

AMCONSUL MELBOURNE

USMISSION OECD PARIS

AMCONSUL PERTH

AMCONSUL SYDNEY

UNCLAS CANBERRA 3795

SYDNEY ALSO PASS TRADE CENTER

E.O. 11652: N/A

TAGS: EGEN, EFIN, ETRD, EALR, AS

SUBJ: RECENT TRENDS IN KEY AUSTRALIAN ECONOMIC STATISTICS

1. SUMMARY: WITH RELEASE OF FIGURES SHOWING RECORD EXPORTS OF \$A802 MILLION IN MAY 1975, IMPORTS DOWN TO \$A645 M. AND A RESULTING EXPORT SURPLUS OF \$A157 M. (ALL UNADJUSTED), ATTENTION HAS RETURNED TO STRONG FOREIGN TRADE PERFORMANCE AS A FACTOR IN MANAGEMENT OF AUSTRALIAN ECONOMY. AT SAME TIME UNEMPLOYMENT DATA GIVE HIGHLY AMBIGUOUS SIGNALS OFFERING NO REAL ENCOURAGEMENT AS TO FUNDAMENTAL IMPROVEMENT. END SUMMARY.

2. MAY WAS SEVENTH SUCCESSIVE MONTH IN WHICH VISIBLE TRADE WAS IN SURPLUS, AND CUMULATIVE EXCESS OF EXPORTS
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OVER IMPORTS FIRST 11 MONTHS OF FY 74-75 TOTALS \$A391 M.

ALTHOUGH THIS ONLY ABOUT HALF OF THE FIGURE OF 12 MONTHS AGO, WHEN EFFECTS OF 1973 EXPORT BOOM STILL EVIDENT, IT NEVERTHELESS REFLECTS SOLID RECOVERY FROM DETERIORATING TREND IN BALANCE JUST PRIOR TO SEPTEMBER 1974 DEVALUATION. TREND IS SHOWN IN FOLLOWING UNADJUSTED SERIES ON AUSTRALIAN FOREIGN TRADE SINCE OCTOBER 1974, LAST MONTH IMPORTS EXCEEDED EXPORTS (ALL VALUES \$A MILLION):

	EXPORTS	IMPORTS	EXCESS
OCT	716	797	(81)
NOV	736	721	15
DEC	716	665	51
JAN	753	710	43
FEB	740	593	147
MAR	681	546	135
APR	775	655	120
MAY	802	645	157

3. FOREIGN EXCHANGE RESERVES INCREASED \$A75 M. IN MAY AND NOW STAND AT \$A3,396 M. COMPARED TO RECENT LOWS OF \$A3,134 M. REACHED AUGUST 1974 AND \$A3,133 M. JAN. 1975. AS A CONSEQUENCE OF THIS AND DROP IN LEVELS OF IMPORTS FROM HIGHS OF NINE MONTHS AGO, AUSTRALIAN RESERVES NOW COVER ABOUT FIVE AND ONE-HALF MONTHS' IMPORTS COMPARED TO FOUR AND ONE-HALF MONTHS' AT THE TIME OF DEVALUATION IN SEPTEMBER 1974.

4. THESE MOVEMENTS OBVIOUSLY DO NOT YET SUGGEST THAT A REPETITION IS PENDING OF THE 1972/73 EXTERNAL SURPLUSES WHICH HELPED TRIGGER THE PRESENT AUSTRALIAN INFLATION. ONE MAJOR MISSING INGREDIENT IS HIGH NET CAPITAL INFLOW. THIS NOW RUNNING AT AN ANNUAL RATE OF APPROXIMATELY \$A400 MILLION COMPARED TO \$A1,000 MILLION IN THAT EARLIER PERIOD. NEVERTHELESS, THESE DEVELOPMENTS BEAR WATCHING FOR TWO REASONS:

- A. THEY SUGGEST THAT THE "IMPORT SURGE" UNDERLYING THE RECENT SERIES OF RESTRICTIVE GOA TRADE MEASURES IS LARGELY PLAYED OUT, AND
- B. THEY CONSTITUTE A GROWING CONSTRAINT ON GOA POLICY EFFORTS TO BRING INFLATION UNDER CONTROL BY CONTROLLING

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LIQUIDITY WHILE REFLATING THE ECONOMY. THIS IS NOT YET A SEVERE CONSTRAINT BUT IF AUSTRALIAN EXPORTS CAN REACH RECORD HIGHS IN PRESENT WORLD DEMAND CONDITIONS, MONTHLY EXPORT LEVELS APPROACHING \$A1,000 MILLION OR MORE ARE AT LEAST CONCEIVABLE AS WORLD DEMAND RECOVERS. ANY SUCH LEVEL WOULD GREATLY INCREASE LIQUIDITY EVEN IN THE ABSENCE OF INCREASES IN CAPITAL INFLOW AND WOULD THEREBY CREATE NEW PRESSURE FOR COUNTER-ACTION BY THE GOA.

5. CANDIDATES FOR SUCH COUNTER-ACTION WOULD UNDOUBTEDLY INCLUDE REVALUATION OF THE DOLLAR, AND/OR CONTROLS ON INCOMING CAPITAL. AUSTRALIA HAS HAD RELATIVELY FRESH EXPERIENCE WITH BOTH OF THESE MEASURES, AND THE GOVERNMENT HAS REPEATEDLY STATED ITS INTENTION TO BE FLEXIBLE IN RESORTING TO INTERVENTION MEASURES. IN BUSINESS CIRCLES, FRESH MEMORIES OF GOA RESORT TO THESE MEASURES IN 1972/73 IS BEGINNING TO FUEL INEVITABLE SPECULATION ON THE POSSIBILITY OF A REPETITION.

6. GIVEN THE GOVERNMENT'S ADDICTION TO BOLD POLITICAL MOVES, IT WOULD BE RASH TO RELY ON AN ECONOMIC ANALYSIS AS A BASIS FOR JUDGING THE LIKELIHOOD OF SUCH MOVES. VEVERTHELESS, THERE ARE NUMEROUS CONSIDERATIONS WHICH MUST BEAR ON THE PROBABILITY OF SUCH A COURSE: (A) REVALUATION WOULD RE-ENFORCE THE ANTI-INFLATIONARY EFFORTS WHICH ARE REGAINING SOME OF THEIR LOST PRIORITY IN THE GOVERNMENT'S PLANNING; (B) ON THE OTHER HAND, THE CHEAPENING OF IMPORTS THROUGH REVALUATION WOULD FLY IN THE FACE OF THE GOVERNMENT'S COSTLY MEASURES TO REDUCE IMPORTS OVER THE PAST SIX MONTHS, AND THE SUBSTANTIAL LABOR AND BUSINESS SENSITIVITY WHICH STILL EXISTS RESPECTING THE CONTRIBUTION OF IMPORTS TO CURRENT HIGH UNEMPLOYMENT AND LOW INDUSTRIAL ACTIVITY; (C) MOREOVER, THE REDUCTION IN DOMESTIC EXPORT PROCEEDS WOULD AGGRIVATE THE SERIOUS PLIGHT OF THE AGRICULTURAL SECTOR; (D) FINALLY, NEW CAPITAL CONTROLS SO SOON AFTER THE VARIABLE DEPOSIT REQUIREMENT WAS DISCONTINUED IN LATE 1974 WOULD COMPOUND THE UNCERTAINTY RESPECTING INVESTMENT WHICH HAS BEEN UNDER INCREASING CRITICISM AS AN OBSTACLE TO AUSTRALIAN ECONOMIC DEVELOPMENT. FOR THESE REASONS THERE WOULD BE SUBSTANTIAL OBJECTIONS TO MOVES OF THIS TYPE, BARRING AN INTENSIFICATION

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OVER COMING MONTHS OF THE PRESENT TRENDS.

7. LATEST UNEMPLOYMENT FIGURES SHOWING DECLINE IN RATE BOTH ACTUAL (TO 4.1 PCT.) AND SEASONALLY ADJUSTED (TO 4.5 PCT.) OFFER NO REAL CAUSE FOR OPTIMISM. DEPT. OF IMMIGRATION AND LABOR, WHICH RESPONSIBLE FOR DATA, CONCEDES ACTUAL RATE WOULD HAVE BEEN ABOUT 5 PCT. BUT FOR SOME 63,000 PERSONS ABSORBED UNDER REGIONAL EMPLOYMENT DEVELOPMENT (RED) AND NATIONAL EMPLOYMENT AND TRAINING (NEAT) SCHEMES. TREASURY BULLETIN RELEASED JUNE 10 ALSO POINTS OUT THAT VIRTUALLY ALL OF IMPROVEMENT IN UNEMPLOYMENT FIGURES COULD BE ACCOUNTED FOR BY CHANGE IN REPORTING PROCEDURES. THUS MOST COMPELLING CONSTRAINT OF ALL, BOTH POLITICAL AND ECONOMIC, CONTINUES TO LOOM LARGE IN POLICY-MAKING BACKGROUND.

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